

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /110 W

----- 007433

R 101651Z FEB 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6379

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 02315

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING FEBRUARY 9)

REF.: BONN 1968

1. FOREIGN EXCHANGE MARKET: ON FRIDAY, FEBRUARY 6, THE DOLLAR STRENGTHENED SOMEWHAT AGAINST THE DEUTSCHEMARK. TRADING WAS REPORTEDLY CALM WITH THE DOLLAR/DM RATE FLUCTUATING BETWEEN DM 2.5715 AND DM 2.5750. ON MONDAY, FEBRUARY 9, THE DE FACTO DEVALUATION OF THE SPANISH PESETA CREATED NEW UNREST ON FOREIGN EXCHANGE MARKETS. SPECULATION ON A DM REVALUATION INCREASED,
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AND THE DEUTSCHEMARK STRENGTHENED AGAINST ALL CURRENCIES.

THE DOLLAR OPENED ON MONDAY, FEBRUARY 9, AT DM 2.5750 BUT DECLINED IN NERVOUS, HECTIC TRADING TO DM 2.5612 AT THE FIXING AND DM 2.5550 AT THE CLOSING. ON FEBRUARY 10 THE DOLLAR RECOVERED SOMEWHAT OPENING AT DM 2.5570 BUT DECLINED TO DM 2.5560 AT THE FIXING. ACCORDING TO NEWS REPORTS THE BUNDESBANK, FOR THE FIRST TIME IN QUITE A WHILE, INTERVENED AT THE FIXING BY BUYING DOLLARS IN AN AMOUNT OF \$22 MILLION. WITHIN THE JOINT FLOAT THE DEUTSCHEMARK NEARED THE TOP OF THE SNAKE ON FEBRUARY 9. ONLY SWEDISH CROWNS AND DUTCH GUILDERS REMAINED SOMEWHAT STRONGER. THE DANISH CROWN APPROACHED ITS DEUTSCHEMARK INTERVENTION POINT, AND THE BUNDESBANK HAD TO INTERVENE, ALTHOUGH REPORTEDLY ONLY IN SMALL AMOUNTS. DURING THE REPORTING WEEK FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS
(DISCOUNTS IN PCT.P.A.)

SPOT DOLLARS ONE-MONTH THREE-MONTH

FEB 2	DM 2.5775	-1.5	-1.7
3	2.5718	-1.8	-1.8
4	2.5750	-1.5	-1.7
5	2.5725	-1.7	-2.0
6	2.5740	-1.6	-1.9
9	2.5612	-1.9	-2.0
10	2.5560	N.A.	N.A.

2. MONEY MARKET: THE GERMAN MONEY MARKET FIRST EASED SOMEWHAT BUT TIGHTENED AGAIN LATER ON WITH THE CALL MONEY RATE RETURNING TO THE LEVEL OF THE 3 1/2 PERCENT REDISCOUNT RATE. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

FEB 2	3.5-3.7	3.70	3.90
3	3.3-3.5	3.60	3.80
4	3.2-3.3	3.60	3.80
5	3.0-3.1	3.80	3.50

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6	3,2-3.4	3.50	3.80
9	3.4-3.6	3.60	3.80

3. BUNDESBANK FOREIGN POSITION: IN THE LAST WEEK OF JANUARY (JANUARY 24-31) THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.1 BILLION TO DM 84.7 BILLION. CREDITS TO FOREIGN CENTRAL BANKS INCREASED BY DM 650 MILLION DUE TO THE LOAN TO PORTUGAL, WHICH, ON THE OTHER

HAND, REDUCED LIQUID FOREIGN EXCHANGE HOLDINGS BY THE SAME AMOUNT. OTHER FACTORS REDUCED HOLDINGS OF LIQUID FOREIGN EXCHANGE FURTHER BY DM 160 MILLION. GERMANY'S IMF GOLD TRANCHE POSITION INCREASED BY DM 91 MILLION AND GROSS FOREIGN LIABILITIES DECLINED BY ABOUT DM 170 MILLION.

4. BANK LIQUIDITY: IN THE LAST WEEK OF JANUARY BANK

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INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

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SIL-01 L-03 H-02 PA-02 PRS-01 /110 W

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R 101651Z FEB 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6380

INFO AMEMBASSY BERN

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USMISSION EC BRUSSELS

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AMCONSUL FRANKFURT

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LIQUIDITY INCREASED BY DM 0.3 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY WAS THE USUAL DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK (DM 4.1 BILLION) IN THE LAST WEEK OF A MONTH. OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 1.5 BILLION. FACTORS REDUCING LIQUIDITY

WERE THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 3.3 BILLION) AND A DM 2.0 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS AT THE BUNDESBANK.

5. FEDERAL LOAN: ON FEBRUARY 11 THE FEDERAL GOVERNMENT WILL ISSUE TWO TRANCHES OF A FEDERAL LOAN TOTALLING DM 700 MILLION. THE FIRST TRANCHE AMOUNTS TO DM 250 UNCLASSIFIED

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MILLION (COUPON 7 1/2 PERCENT, ISSUE PRICE 99.50, MATURITY 5 YEARS NON-CALLABLE, YIELD TO MATURITY 7.62 PERCENT), AND THE SECOND TRANCHE TO DM 450 MILLION (COUPON 8 PERCENT, ISSUE PRICE 100, MATURITY 8 YEARS NON-CALLABLE, YIELD TO MATURITY 8.00 PERCENT). DM 50 MILLION OF BOTH TRANCHES WILL BE RETAINED BY THE BUNDESBANK FOR PURPOSES OF PRICE SUPPORTING. THE ISSUE IS THE FIRST FEDERAL LOAN OFFERED IN TRANCHES CARRYING DIFFERENT CONDITIONS. ACCORDING TO THE FINANCIAL PRESS INVESTORS PREFER THE 7 1/2 PERCENT LOAN BECAUSE OF ITS SHORTER MATURITY.

6. FOREIGN DM LOANS; THE JAPANESE HITACHI SHIPBUILDING AND ENGINEERING COMPANY LTD., OSAKA, AND THE SWEDISH CITY OF MALMOE ARE CURRENTLY NEGOTIATING THE ISSUE OF LOANS OF DM 50 MILLION EACH. BOTH LOANS ARE EXPECTED TO CARRY A COUPON OF 8 1/4 PERCENT. THE HITACHI LOAN WILL HAVE A MATURITY OF 5 YEARS NON-CALLABLE AND THE MALMOE LOAN A MAXIMUM MATURITY OF 7 YEARS WITH REPAYMENT BEGINNING AFTER 3 YEARS.

7. ECONOMIC INDICATORS PUBLISHED THIS WEEK: UNDER THE INFLUENCE OF BOTH SEASONAL FACTORS AND UNUSUALLY SEVERE WINTER WEATHER, UNEMPLOYMENT IN JANUARY INCREASED BY 127,600 FOR A TOTAL OF 1,351,000 AND THE UNEMPLOYMENT RATE (NON-SEASONALLY ADJUSTED) ROSE FROM 5.3 PERCENT IN DECEMBER TO 5.9 PERCENT IN JANUARY. AT THE SAME TIME, THE NUMBER OF WORKERS ON REDUCED SCHEDULE DECLINED SLIGHTLY AND CAME TO 743,300, WHEREAS THE NUMBER OF VACANCIES INCREASED FOR A TOTAL OF 190,700. ACCORDING TO OFFICIAL STATISTICS RELEASED ON FEBRUARY 4, EMPLOYMENT OF FOREIGNERS IN THE FRG IN MID-1975 AMOUNTED TO 2,070,700. THIS IS 11.2 PERCENT LESS THAN IN MID-1974. THE DECLINE OF EMPLOYMENT OF GERMAN WORKERS FROM MID-1974 TO MID-1975 CAME TO A COMPARATIVELY MODEST 2.4 PERCENT. ON THE BASIS OF ITS LATEST BUSINESS SURVEY DATA THE IFO ECONOMIC RESEARCH INSTITUTE CONCLUDED THAT, ON BALANCE, THE TREND TOWARD A LESS PESSI-

MISTIC APPRAISAL OF BUSINESS PROSPECTS IN THE MANUFACTURING SECTOR CONTINUED IN DECEMBER. HOWEVER, AMONG THOSE SURVEYED, THE NUMBER OF FIRMS EXPECTING A PICK-UP
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OF BUSINESS DURING THE NEXT SIX MONTHS CONTINUED TO BE OUTNUMBERED BY THOSE FORESEEING NO CHANGE OR EVEN LESS FAVORABLE DEVELOPMENTS. THE COST OF LIVING INDEX IN JANUARY (1970=100) STOOD AT 138.3, I.E., 0.8 PERCENT ABOVE THE DECEMBER 1975 LEVEL. THE YEAR-TO-YEAR RATE OF INCREASE OF LIVING COSTS, WHICH CAME TO 5.4 PERCENT IN BOTH NOVEMBER AND DECEMBER, DECLINED TO 5.3 PERCENT IN JANUARY; IN JANUARY 1975, IT STILL CAME TO 6.1 PERCENT. THE NUMBER OF NEW PASSENGER CARS REGISTERED IN DECEMBER 1975 CAME TO 134,529 AS COMPARED WITH 154,674 IN NOVEMBER 1975 AND 96,814 IN DECEMBER 1974. BUILDING PERMITS FOR HOUSING UNITS IN NOVEMBER 1975 CAME TO 35,007 -- 298 OR 1 PERCENT LESS THAN IN OCTOBER 1975 BUT 7,558 OR 27.5 PERCENT MORE THAN IN NOVEMBER 1974. PRELIMINARY INDUSTRIAL ORDER AND PRODUCTION DATA FOR DECEMBER 1975 ARE CONTAINED IN BONN 1968.
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